

Message Text

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22

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 ABF-01 FS-01 IGA-02

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R 060852Z APR 76

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 2459

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

UNCLAS COPENHAGEN 1148

E.O. 11652: N/A

TAGS: EFIN, DA

SUBJECT: DECLINING RESERVES DESPITE HEAVY BORROWING

REF: A) COPENHAGEN 989, B) COPENHAGEN 1046

1. DANISH FOREIGN EXCHANGE RESERVES DROPPED ABOUT \$150
MILLION FROM END OF FEBRUARY TO END OF MARCH, ALTHOUGH
THE GOVERNMENT DURING MARCH BORROWED OVER \$250 MILION
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ABROAD. THE NET LOSS OF RESERVES ON CURRENT TRANSACTIONS

OF SOME \$400 MILLION ON A MONTH-TO-MONTH BASIS CONFIRMS OUR PREVIOUS ESTIMATE (REFTEL A) THAT THE INTERVENTION LOSS AT ITS PEAK EXCEEDED \$500 MILLION OR ABOUT HALF THE CURRENT RESERVE.

2. CURRENT RESERVES BY THE END OF MARCH WERE DOWN TO \$840 MILLION AS COMPARED TO \$940 AT THE END OF 1975 AND \$1,220 ONE YEAR EARLIER. THESE FIGURES INCLUDE RESERVES HELD BY BOTH CENTRAL AND COMMERCIAL BANKS. DURING THE FIRST QUARTER OF 1976 THERE WERE, IN ADDITION TO THE OVERALL LOSS OF RESERVES, HEAVY TRAFFERS OF RESERVES FROM THE CENTRAL TO THE COMMERCIAL BANKING SYSTEM, REFLECTING PRESSURES ON FORWARD TRADE. OFFICIAL RESERVES, HELD BY THE CENTRAL BANK, FELL OVER \$500 MILLION WHILE COMMERCIAL BANKS' FOREIGN RESERVES ROSE \$400 MILLION.

3. ALTHOUGH THE LOSS OF RESERVES HAD ALREADY TAKEN PLACE IN MARCH AND THE AMOUNT OF THE LOSS WAS MITIGATED BOTH BY LOAN INFLOWS AND, PRESUMABLY, BY A MORE RELAXED MARKET IN THE LAST TEN DAYS OF THE MONTH, THE DANISH KRONE WAS WEAKENED FRIDAY (APRIL 2), AND MODERATE INTERVENTION WAS NECESSARY IN ORDER TO KEEP ITS RELATIONSHIP TO THE DEUTSCHMARK. THE KRONE RECOVERED MONDAY (APRIL 5), HOWEVER, AND MOVED UPWARD IN THE SNAKE TO A LEVEL JUST BELOW THAT OF THE BELGIAN FRANC AND THE DUTCH GUILDER. ALTHOUGH THE DOLLAR STRENGTHENED INTERNATIONALLY, THE KRONE WAS RELATIVELY STRONGER CAUSING DOLLAR RATE TO FALL SLIGHTLY IN COPENHAGEN.

4. CENTRAL BANK GOVERNOR ERIK HOFFMEYER COMMENTED UPON THE SITUATION OF THE DANISH KRONE OVER THE WEEKEND. WITHOUT THE ASSISTANCE OF THE EUROPEAN MONETARY COOPERATION DURING THE MARCH CURRENCY CRISIS, SAID HOFFMEYER, THE DANISH ECONOMY WOULD BE AS CHAOTIC AS THE BRITISH WITH HEAVY INFLATION, STILL HIGHER UNEMPLOYMENT, AND A CONTINUOUSLY DECLINING KRONE RATE. CONSIDERING THE LARGE DANISH FOREIGN DEBT WHICH IN 1976 IS UNCLASSIFIED

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LIKELY TO RISE ANOTHER \$1,150 MILLION, HOFFMEYER THOUGHT IT NAIVE TO BELIEVE THAT DENMARK HAD ANY FREEDOM OF MOVEMENT ECONOMICALLY AT ALL. IT WAS ONLY THE MEMBERSHIP IN THE DEUTSCHMARK-BLOC THAT IMPROVED DANISH CREDITWORTHINESS AND PERMITTED BORROWING ABROAD TO COVER THE RECORD BALANCE OF PAYMENTS DEFICIT.

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